

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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FISCAL IMPACT STATEMENT

LS 6086

BILL NUMBER: SB 284

DATE PREPARED: Nov 4, 2001

BILL AMENDED:

SUBJECT: Collective Bargaining for Education Personnel.

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**FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL**

IMPACT: State & Local

Summary of Legislation: This bill repeals provisions concerning mediation, factfinding, and collective bargaining between a school corporation and an exclusive representative, and strikes by education personnel. The bill adds provisions concerning final offer mediation-arbitration. It includes state educational institutions (colleges and universities) among the school units required to bargain collectively with employees. The bill also includes noncertificated education employees under the collective bargaining provisions. It requires school employers to bargain collectively on certain issues. This bill authorizes the Indiana Education Employment Relations Board to issue certain orders and impose certain requirements on a person who commits an unfair practice.

Effective Date: July 1, 2002.

Explanation of State Expenditures: This bill involves three major cost and revenue components which may affect the state: (1) The cost to the Indiana Education Employment Relations Board (IEERB) of the mediation-arbitration provisions as those provisions affect teachers who are already covered under the collective bargaining statute, as well as the non-certificated employees and the employees of state educational institutions being brought under the collective bargaining statute by this bill; (2) The effect on wages and fringe benefits of the non-certificated employees and employees of state educational institutions; and (3) The additional revenues to the state from increased income tax collections.

Impact on IEERB (from mediation-arbitration provisions): The net impact on IEERB of the mediation-arbitration provisions as it would affect the teachers is estimated to be about \$107,000 in additional costs each year. Depending on how the new employees made eligible for collective bargaining under this proposal (non-certificated employees and employees of state educational institutions) organize, the IEERB would incur undetermined additional costs related to the impasse procedures.

Impact on IEERB (from new bargaining units): Also depending on how the non-certificated employees and

employees of state educational institutions organize, the IEERB would incur additional costs related to the establishment of employee organizations and the conduct of elections. The estimated expense of holding an election is about \$2,000. The Board may require temporary additional support to carry out these functions.

This proposal also repeals the statutory ban on strikes for educational personnel. It is estimated that the IEERB may require between \$10,000 to \$20,000 in additional expenditures to mediate strikes. The exact impact of this provision depends on the number of strikes that would occur.

In addition, the bill requires the chairman of IEERB to possess certain qualifications, including one semester of post-secondary academic training and one year of work experience in the area of labor relations. If these requirements limit the number of people who might qualify for the position, the state could potentially incur additional costs.

Impact of Collective Bargaining on State Universities: The long term impact of collective bargaining on the wages, salaries, and fringe benefits for state university faculty and non-faculty employees is estimated to be between \$119M and \$179M annually, based on current compensation paid from state funds and student fees to university and college employees. (It is important to note that the time frame during which the wage differential would arise is not considered here. Elections and bargaining must take place over time and the attainment of the estimated wage and benefit differential is achieved by the accumulation of contract settlements which are slightly better than what would have occurred without collective bargaining. Therefore, the total impact would not be realized immediately and, perhaps, might not be fully realized for a number of years.)

This also does not necessarily imply a commensurate increase in state expenditures. As with most other bills, the source of funds is not determined within the language of the bill. The source of funds which might be required to compensate for the impact of this bill in combination with all other state expenditures may include new tax revenues, reverted funds, funds diverted from other programs or budget categories, and/or increases in fee revenue.

Background on the Collective Bargaining Effect: With respect to the potential costs of collective bargaining, various studies have been conducted in recent years attempting to estimate the effect of collective bargaining on wage, salary, and benefit levels of public employees. Most studies conclude that public sector collective bargaining differs in at least two ways from collective bargaining in the private sector:

(1) Public sector unions have a greater influence than private sector unions on employer behavior because of their ability to work within the political process. Unions, through their lobbying efforts, can influence public sector budgets and, thus, the demand for public sector employees in addition to the level of compensation (Zax and Ichniowski, 1988).

(2) Public sector union wage effects can differ significantly over time and are generally smaller than those in the private sector but are far from negligible (Lewis, 1990).

Wage effects are usually measured through cross-sectional statistical studies where general wage levels of government employees without collective bargaining are statistically compared to collectively bargained wage levels. By controlling for other economic variables which might influence wage levels, researchers are able to arrive at an estimate of the wage differential which is attributable to collective bargaining. After the introduction of collective bargaining, these wage level differentials would not be expected to occur immediately. Rather, the differentials would accumulate from annual contract settlements which are a little

higher than what would otherwise occur without collective bargaining. Thus, over time, these small percentage wage and salary improvements due to collective bargaining accumulate into a differential which, once built into the payroll base, is paid annually.

For example, if the annual average wage settlement obtained after the introduction of collective bargaining was 4.5% and the annual wage increase that would have been obtained by employees without collective bargaining was 3.5%, then the difference would be equal to 1% of the payroll level. Over time, a series of contract settlements, over and above what would have occurred without collective bargaining, can be expected to result in an accumulated wage and salary differential.

Comprehensive literature reviews by Freeman (1986) and Lewis (1988) tend to confirm the appropriateness of these moderate, but non-negligible, collective bargaining effects on union/non-union wage differentials for all government employees in the public sector. These studies also report the effect of collective bargaining on fringe benefits to be at least as great or greater than on wage levels. Likewise, studies by Ichniowski (1980), Edwards and Edwards (1982), and Zax (1988) suggest that collective bargaining has a considerably larger impact on fringe benefit levels than on wage levels. Lewis (1990), in a survey of 75 studies which estimated union/non-union wage and benefit differentials for various levels of government and employee groups, concluded that the average differential in total compensation (wages + fringe benefits) was 8% to 12% for the public sector. [Although the majority of statistical studies involve local governments, studies involving federal and state governments indicate that the average wage differential for the federal government employees was less than for all governmental bodies, and that the differential for local governments was above the average for all levels of government. Lewis (1990) indicated that it was not unreasonable to conclude that the wage differential at the local government level was 10% to 15%, about as great as that for all U.S. wage and salary workers.]

Not considered here, but potentially very significant, are collectively bargained conditions of employment which are not included in the estimated wage and fringe benefit increases described above.

Background on IEERB Expenses: Based on the 306 teacher bargaining units that may currently bargain collectively, the estimated increase in expenses would be about \$253,000 per year. (The non-certificated employees and employees of state educational institutions made eligible for collective bargaining under this bill are not factored into the additional expenditures due to the mediation-arbitration provisions.) This amount is based on the projected cost of mediation services multiplied by the expected number of mediations required per year. These estimates assume that this option will be used by approximately 25% of the eligible bargaining units (based on current practice). Usage below this level could decrease the net costs resulting from this bill.

The cost of a mediator is conservatively estimated at \$375 per day. The average number of days per case, given the bill's seven-day limit on the actual mediation, would be approximately eleven (11) days (7 for mediation, 1 for hearings, 2 for writing, and 1 for travel). Additional expenses per case include travel (\$112 per case), lodging (\$520 per case), and per diem allowance (\$208 per case). This results in a total expense of \$4,965 per case.

Of the 306 teacher units that may bargain using final offer mediation-arbitration, about 66% of these parties have not reached agreements over the past ten years without using current impasse procedures. As 25% of these units are expected to use the mediation-arbitration process, the annual projected number of cases is 51 ($306 \times 66\% \times 25\%$). This results in a projected cost of about \$253,215 per year ($51 \text{ cases} \times \$4,965 \text{ per case}$).

(Note: This analysis assumes that arbitrators can be obtained at \$375 per day. Due to the small number of people in Indiana qualified as arbitrators, the relative pay rate compared with other states, and the time lines required by this proposal, \$375 per day may be too low to attract the necessary number of arbitrators. Arbitrators in other states are reported to receive at least \$450 per day with more experienced arbitrators receiving \$500 to \$750 each day. The actual fiscal impact of this provision would also depend upon the average payment necessary to attract a sufficient number of arbitrators.)

Offsetting these expenses, a savings of \$146,000 could be generated each year if the current impasse procedures were no longer used. This is due to a reduction in salary and benefits (\$86,600 for two staff members) and ad hoc expenses (\$50,000). Any savings resulting from the staff reduction could be delayed if accomplished through attrition. Staff travel for mediation and fact-finding procedures conducted under the current system would also be cut, saving approximately \$10,000. Further savings may result if this bill substantially reduces the time required to bargain and resolve labor disputes. Consequently, the net impact of the mediation-arbitration provisions of this bill from the teacher bargaining units is estimated to be about \$107,000 in additional costs each year (\$253,000 - \$146,00).

Explanation of State Revenues: When the wage and salary differential for employees of state educational institutions is reached, additional revenues which would be collected from the 3.4% state income tax on the accumulated employee wage differential would total approximately \$4.1 M to \$6.1 M. In years leading up to the accumulated differential, additional revenue in amounts less than this range could be expected. Additional state revenues for non-certificated school employees have not been estimated.

Explanation of Local Expenditures: *Impact of Collective Bargaining for Non-Certificated School Employees:* Estimating the fiscal impact from the introduction of collective bargaining on non-certificated employees of school corporations is difficult largely because of the lack of data and the existence of "spillover" effects from employee groups who do collectively bargain. According to the Indiana School Boards Association, around 42 of the school corporations currently participate in collective bargaining with their non-certificated employees. The approximate payroll of non-certificated school employees in Indiana for FY 2001 was about \$1.061 billion.

Collective bargaining is not new to school corporations in Indiana. Teachers have been allowed to bargain collectively for several years. Since teachers and non-certificated school employees work side-by-side in the same buildings and have the same employers making the wage-setting decisions, some of the effect of teacher collective bargaining will have "spilled over" to the non-certificated personnel. School administrators and school boards are likely to be influenced by contract settlements with their teachers and by the competitive wage levels for comparable employees of neighboring school systems, some of whom may be under collectively bargained contracts. Because of these factors, it is difficult to project the magnitude of the increase in wages and benefits to this employee group arising from the introduction of collective bargaining.

Since school corporations are dependent to a large extent on property taxes which are regulated by the state, the additional wages and benefits negotiated with employees as a result of collective bargaining may not result in increased tax collections. Instead, increased personnel costs may force reallocations from other areas in the school budget or result in a greater demand for state funds.

There could also be a fiscal impact for school corporations from the introduction of arbitration procedures for teacher bargaining units. The repeal of the prohibition against strikes could also have significant cost implications.

Explanation of Local Revenues: Counties with local option income taxes may also experience some additional revenue due to the wage differential.

State Agencies Affected: IEERB; State Educational Institutions.

Local Agencies Affected: School Corporations.

Information Sources: Dennis Neary, IEERB, (317) 233-6620.
Patty Bond, Department of Education, (317) 232-0840.
Mike Baumgarten, Commission for Higher Education, (317) 464-4400.